

CITY OF OVERBROOK, KANSAS

STATUTORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2010

And

INDEPENDENT AUDITORS' REPORT

Long CPA, PA
A Professional Association
Certified Public Accountants

CITY OF OVERBROOK, KANSAS

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Long CPA, PA

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The Honorable Mayor and City Council
P.O. Box 325
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the financial statements of the City of Overbrook, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonable determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in its financial position for the year then ended.

In our opinion the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2010, and its cash receipts and expenditures, budgetary comparisons, and changes in long-term debt and long-term debt maturities for the year then ended, on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Long CPA, PA". The signature is written in a cursive, flowing style.

Long CPA, PA
A Professional Association
Certified Public Accountant

May 20, 2011

CITY OF OVERBROOK, KANSAS
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2010

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
General Funds							
General	\$ 293,362	\$ 0	\$ 291,306	\$ 269,185	\$ 315,483	\$ 0	\$ 315,483
Special Revenue Funds							
Public Safety	19,817	0	114,674	118,806	15,685	0	15,685
Street maintenance	3,772	0	39,851	11,929	31,694	0	31,694
Library	0	0	45,155	45,155	0	0	0
Special highway	45,202	0	24,760	0	69,962	0	69,962
Water/Sewer reserve	0	0	15,000	0	15,000	0	15,000
Equipment reserve	45,130	0	9,996	8,462	46,664	0	46,664
Employee benefit reserve	30,830	0	0	0	30,830	0	30,830
Debt Service Funds							
Bond & Interest	7,971	0	28,929	32,698	4,202	0	4,202
Proprietary Type Funds:							
Water and Sewer Utility	126,315	0	424,811	406,212	144,914	0	144,914
Pool	3,514	0	42,912	33,303	13,123	0	13,123
Capital projects							
Lake fund	0	0	25,417	25,417	0	0	0
Sewer grant	(255,085)	0	678,411	669,801	(246,475)	0	(246,475)
Street project	0	0	437,000	191,426	245,574	0	245,574
Water line	14,239	0	218,277	246,934	(14,418)	0	(14,418)
Subtotal	335,067	0	2,396,499	2,059,328	672,238	0	672,238
Component Unit:							
Library	27,529	0	84,631	78,505	33,655	0	33,655
Recreation commission	2,420	0	21,962	16,468	7,914	0	7,914
Total Reporting Entity	\$ 365,016	\$ 0	\$ 2,503,092	\$ 2,154,301	\$ 713,807	\$ 0	\$ 713,807
Composition of Cash							
					Checking Accounts		\$ 624,386
					Savings Accounts		
					Petty Cash		
					Municipal Investment Pool		
					Certificates of Deposit		89,421
					Total Component Unit		
					Total Reporting Entity		\$ 713,807

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2010

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments to Comply with Legal Max</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Governmental Type Funds</u>						
General Funds						
General	\$ 441,500	\$ 0	\$ 0	\$ 441,500	\$ 269,185	\$ 172,315
Special Revenue Funds						
Public safety	149,000	0	0	149,000	118,806	30,194
Street maintenance	50,500	0	0	50,500	11,929	38,571
Library	52,000	0	0	52,000	45,155	6,845
Special highway	60,034	0	0	60,034	0	60,034
Debt Service Funds						
Bond and Interest	34,750	0	0	34,750	32,698	2,052
Proprietary Type Funds						
Water and Sewer utility	450,000	0	0	450,000	406,212	43,788
Pool	33,303	0	0	33,303	33,303	0

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 56,341	\$ 59,998	\$ (3,657)
Delinquent tax	1,336	1,000	336
Motor vehicle tax	7,939	9,045	(1,106)
RV tax	146	202	(56)
16/20M vehicle tax		43	(43)
Franchise fees	38,888	45,000	(6,112)
Intergovernmental revenues	2,417	6,114	(3,697)
Sales tax	152,656	150,000	2,656
Licenses, rent, permits	2,325	1,000	1,325
Municipal court	6,003	4,500	1,503
Interest income	2,747		2,747
Miscellaneous revenues	20,508		20,508
Operating transfers			0
	<u>291,306</u>	<u>276,902</u>	<u>14,404</u>
EXPENDITURES			
General government			
Personnel services	66,296	65,000	(1,296)
Commodities	32,527	32,500	(27)
Contractual	43,166	48,000	4,834
Public safety	16,944	35,000	18,056
Highways and streets	29,520	30,000	480
Recreation and culture	44,696	65,000	20,304
Capital outlay		109,967	109,967
Operating transfers	36,036	56,033	19,997
Adjustment for qualifying budget credits			0
	<u>269,185</u>	<u>\$ 441,500</u>	<u>\$ 172,315</u>
Receipts Over (Under) Expenditures	22,121		
Unencumbered Cash, Beginning	293,362		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 315,483</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
LAW FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 98,437	\$ 104,856	\$ (6,419)
Delinquent tax	2,113	1,750	363
Motor vehicle tax	13,604	15,962	(2,358)
RV tax	255	350	(95)
16/20M vehicle tax		75	(75)
Intergovernmental revenue			0
Interest income			0
Miscellaneous revenues	265		265
Operating transfers			0
	<u>114,674</u>	<u>122,993</u>	<u>(8,319)</u>
Total Cash Receipts			
EXPENDITURES			
General administration			0
Public safety			
Personnel services	103,860	120,000	16,140
Commodities	5,477	19,000	13,523
Contractual	9,469	5,000	(4,469)
Capital outlay		5,000	5,000
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>118,806</u>	<u>\$ 149,000</u>	<u>\$ 30,194</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(4,132)		
Unencumbered Cash, Beginning	19,817		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 15,685</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
STREET MAINTENANCE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 17,085	\$ 18,203	\$ (1,118)
Delinquent tax	240	100	140
Motor vehicle tax	2,389	2,782	(393)
RV tax	46	62	(16)
16/20M vehicle tax		13	(13)
Fuel tax			0
Sales tax			0
Bond proceeds			0
Interest income			0
Miscellaneous revenues	87		87
Operating transfers	<u>20,004</u>	<u>20,000</u>	<u>4</u>
Total Cash Receipts	<u>39,851</u>	<u>41,160</u>	<u>(1,309)</u>
EXPENDITURES			
Street project			0
Streets	11,929	50,500	38,571
Operating transfers			0
Adjustment for qualifying budget credits			<u>0</u>
Total Expenditures	<u>11,929</u>	<u>\$ 50,500</u>	<u>\$ 38,571</u>
Receipts Over (Under) Expenditures	27,922		
Unencumbered Cash, Beginning	3,772		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 31,694</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
LIBRARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 38,887	\$ 41,425	\$ (2,538)
Delinquent tax	793	600	193
Motor vehicle tax	5,374	6,218	(844)
RV tax	101	139	(38)
16/20M vehicle tax		30	(30)
Federal grants			0
State aid/grants			0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>45,155</u>	<u>48,412</u>	<u>(3,257)</u>
Total Cash Receipts			
EXPENDITURES			
General government	45,155	52,000	6,845
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>45,155</u>	<u>\$ 52,000</u>	<u>\$ 6,845</u>
Total Expenditures			
Receipts Over (Under) Expenditures	-		
Unencumbered Cash, Beginning	0		
Prior Year Cancelled Encumbrances	0		
	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>0</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
SPECIAL HIGHWAY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Intergovernmental revenues	\$ 24,760	\$ 27,080	\$ (2,320)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>24,760</u>	<u>27,080</u>	<u>(2,320)</u>
Total Cash Receipts			
EXPENDITURES			
General government			0
Highways and streets		60,034	60,034
Personnel services			0
Commodities			0
Contractual			0
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>0</u>	<u>\$ 60,034</u>	<u>\$ 60,034</u>
Total Expenditures			
Receipts Over (Under) Expenditures	24,760		
Unencumbered Cash, Beginning	45,202		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 69,962</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
 BOND AND INTEREST FUND
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 21,468	\$ 22,870	\$ (1,402)
Delinquent tax	424	300	124
Motor vehicle tax	2,985	3,436	(451)
RV tax	56	77	(21)
16/20M vehicle tax		16	(16)
Intergovernmental revenues	3,996	2,500	1,496
Miscellaneous revenues			0
Operating transfers			0
	<u>28,929</u>	<u>29,199</u>	<u>(270)</u>
Total Cash Receipts			
EXPENDITURES			
General administration	22,613		(22,613)
Debt service	10,085	34,750	24,665
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>32,698</u>	<u>\$ 34,750</u>	<u>\$ 2,052</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(3,769)		
Unencumbered Cash, Beginning	7,971		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 4,202</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
WATER AND SEWER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 424,811	\$ 390,000	\$ 34,811
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>424,811</u>	<u>390,000</u>	<u>34,811</u>
Total Cash Receipts			
EXPENDITURES			
Production			
Personnel services	46,952	59,000	12,048
Commodities	153,973	137,787	(16,186)
Contractual			0
Refuse collection	102,159	110,000	7,841
Capital outlay			0
Debt service		40,086	40,086
Operating transfers	103,128	103,127	(1)
Adjustment for qualifying budget credits			0
	<u>406,212</u>	<u>\$ 450,000</u>	<u>\$ 43,788</u>
Total Expenditures			
Receipts Over (Under) Expenditures	18,599		
Unencumbered Cash, Beginning	126,315		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 144,914</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
 POOL FUND
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 22,908	\$ 13,000	\$ 9,908
Interest income			0
Miscellaneous revenues			0
Operating transfers	<u>20,004</u>	<u>20,000</u>	<u>4</u>
Total Cash Receipts	<u>42,912</u>	<u>33,000</u>	<u>9,912</u>
EXPENDITURES			
Operations			
Personnel services	31,986	25,000	(6,986)
Commodities	1,317	8,303	6,986
Contractual			0
Capital outlay			0
Debt service			0
Operating transfers			0
Adjustment for qualifying budget credits			<u>0</u>
Total Expenditures	<u>33,303</u>	<u>\$ 33,303</u>	<u>\$ 0</u>
Receipts Over (Under) Expenditures	9,609		
Unencumbered Cash, Beginning	3,514		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 13,123</u>		

The notes to financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
 ANY NONBUDGETED FUNDS
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2010

	<u>Lake Fund</u>	<u>Water Grant</u>	<u>Water/Sewer Reserve</u>
CASH RECEIPTS			
Federal grants	\$	\$	\$
State aid/grants	22,224		
City appropriation		8,977	
Charges for services	3,193		
Interest income			
Miscellaneous revenues		200,000	
Operating transfers		9,300	15,000
	<u>25,417</u>	<u>218,277</u>	<u>15,000</u>
Total Cash Receipts			
EXPENDITURES			
Operations			
Personnel services			
Commodities	25,417		
Contractual		235,387	
Capital outlay			
Debt service		11,547	
Operating transfers			
Adjustment for qualifying budget credits			
	<u>25,417</u>	<u>246,934</u>	<u>0</u>
Total Expenditures			
Receipts Over (Under) Expenditures	0	(28,657)	15,000
Unencumbered Cash, Beginning	0	14,239	-
Prior Year Cancelled Encumbrances	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	\$ <u>0</u>	\$ <u>(14,418)</u>	\$ <u>15,000</u>

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
 ANY NONBUDGETED FUNDS
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2010

	Employee Benefit Reserve	Sewer Grant	Equipment Reserve
CASH RECEIPTS			
Federal grants	\$	\$ 307,261	\$
State aid/grants			
City appropriation			
Charges for services			
Interest income			
Miscellaneous revenues		281,374	
Operating transfers		89,776	9,996
Total Cash Receipts	0	678,411	9,996
EXPENDITURES			
Operations			
Personnel services			
Commodities			
Contractual		594,540	
Capital outlay			8,462
Debt service		75,261	
Operating transfers			
Adjustment for qualifying budget credits			
Total Expenditures	0	669,801	8,462
Receipts Over (Under) Expenditures	0	8,610	1,534
Unencumbered Cash, Beginning	30,830	(255,085)	45,130
Prior Year Cancelled Encumbrances	0	0	0
Unencumbered Cash, Ending	\$ 30,830	\$ (246,475)	\$ 46,664

The notes to the financial statements are an integral part of this statement.

CITY OF OVERBROOK, KANSAS
Statement of Changes in Long-Term Debt
For the Year Ended December 31, 2010

Note 11 - Long Term Debt

Changes in long-term liabilities for the City for the year ended December 31, 2010 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Swimming pool	5.00%	10/1/98	395,000	10/1/18	\$ 235,000	\$ 775,000	\$ 235,000	\$ (235,000)	\$ 0	\$ 10,085
Refunding and improvement	1.50-4.25%	9/1/10	775,000	9/1/25				775,000	775,000	
KDHE Loan:										
Kansas Department of Health and Environment(Waterline)	4.15%	2/1/03	160,000	2/1/24	121,679		6,565	(6,565)	115,114	4,562
Kansas Department of Health and Environment(Wastewater)	3.56%	10/22/04	1,060,660	10/22/24	498,404	272,531	59,879	212,652	711,036	14,064
Total Long Term Debt					\$ 855,083	\$ 1,047,531	\$ 301,444	\$ 746,087	\$ 1,601,170	\$ 28,711

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2011	2012	2013	2014	2015	2016-2020	2021-2025	Total
Principal								
General Obligation Bon	\$ 60,000	\$ 60,000	\$ 60,000	\$ 65,000	\$ 65,000	\$ 390,000	\$ 75,000	\$ 775,000
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases								0
Revenue Bonds								0
KDHE Loans	67,374	63,392	65,208	67,077	69,002	375,917	118,200	826,170
Temporary Notes								0
Total Principal	127,374	123,392	125,208	132,077	134,002	765,917	193,200	1,601,170
Interest								
General Obligation Bon	24,229	21,237	20,188	18,988	17,526	56,502	9,564	168,234
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases								0
Revenue Bonds								0
KDHE Loans	21,747	21,660	19,845	17,975	16,051	49,343	5,269	151,890
Temporary Notes								0
Total Interest	45,976	42,897	40,033	36,963	33,577	105,845	14,833	320,124
Total Principal and Interest	\$ 173,350	\$ 166,289	\$ 165,241	\$ 169,040	\$ 167,579	\$ 871,762	\$ 208,033	\$ 1,921,294

CITY OF OVERBROOK, KANSAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Overbrook, Kansas is a municipal corporation governed by an elected six member council. The City as an entity has been defined to include, on a combined basis, (a) the City of Overbrook, Kansas (b) organizations for which the City of Overbrook, Kansas is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the City of Overbrook, Kansas are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are currently no organizations which meet the foregoing criteria for being combined in the City's report.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City for the year 2010:

Governmental Funds

General Fund - To account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

Debt Service Funds – To account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

CITY OF OVERBROOK, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Proprietary Funds

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises—where stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges— or where periodic determinations of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursement, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principle and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally

CITY OF OVERBROOK, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Departure from Generally Accepted Accounting Principles (Continued)

accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

Discretely Presented Component Units

The component unit section of the financial statements includes the financial data of the discretely presented component units. These component units are reported separately to emphasize that they are legally separate from the City. The governing body of these component units is appointed by the City.

Overbrook Community Library

The Overbrook Community Library operates the City's public library. The City annually levies a tax for the Library. The accounting policies of the Overbrook Community Library are the same as those of the City. The accounting records of the Overbrook Community Library have been audited and are included in these financial statements.

Overbrook Recreation Commission

The Overbrook Recreation Commission operates the City's baseball fields. The City council appoints members to the commission. The accounting policies of the Overbrook Recreation Commission are the same as those of the City. The accounting records of the Overbrook Recreation Commission have not been audited.

Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

CITY OF OVERBROOK, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. No budgets amendments were noted for the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting. Revenues are recognized when measurable and available to finance current year expenditures. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, trust funds and the following special revenue funds: 1) Capital Improvement Fund,

CITY OF OVERBROOK, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (continued)

2) Equipment Reserve Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

NOTE 2 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

CITY OF OVERBROOK, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

At December 31, 2010, the government's carrying amount of deposits was \$ 713,807 and the bank balance was \$ 509,715. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance at year end, \$ 357,341 was covered by federal depository insurance and \$ 152,374 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

Custodial Credit Risk- Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Defined Benefit Pension Plan

Plan Description – The City of Overbrook, Kansas participates in the Kansas Public Employees Retirement System (KPERS), and the Kansas Police and Firemen Retirement System (KPEF). Both are cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

CITY OF OVERBROOK, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Defined Benefit Pension Plan (continued)

Funding Policy – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. K.S.A. 74-4975 establishes the KP&F member contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contributions rate be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2010 is 6.14%. The City of Overbrook, Kansas employer contributions to KPERS for the years ended December 31, 2010, 2009, and 2008, were \$4,115, \$3,479, and \$4,525, respectively, equal to the statutory required contributions for each year. The KP&F employer rate established for fiscal years beginning in 2009 is 13.51%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City of Overbrook contributions to KP&F for the years ending December 31, 2010, 2009, and 2008 were \$9,983, \$7,761, \$5,518, respectively, equal to the required contributions for each year.

NOTE 4 – Risk Management

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 5 – Compliance with Kansas Statutes

We noted a violation of K.S.A.9-1402, the depository security law, for the period under audit.

NOTE 6 – Compensated Absences

City employees receive vacation and sick leave benefits. Vacations benefits accrue on a monthly basis and an annual carryover caps the number of days transferred from year to year. Upon termination, employees are compensated for any unused vacation leave. Sick leave accrues on a monthly basis up to a maximum. Upon termination, employees are not compensated for any unused sick leave. This amount has not been recorded in the financial statements due to its immaterial nature.

CITY OF OVERBROOK, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 7- Capital Projects

At year-end, capital project authorizations with approved change orders compared with expenditures from inception are as follows:

	Expenditures <u>To date</u>	Project <u>Authorization</u>
Sewer Line	\$ 1,431,108	\$ 1,600,660

NOTE 8 – Interfund Transactions

Operating transfers were as follows:

From	To	Statutory Authority	Amount
General Fund	Pool Fund	K.S.A. 10-1102	\$ 20,004
General Fund	Equipment Reserve Fund	K.S.A. 12-1,117	9,999
General Fund	Water/Sewer Reserve	K.S.A. 12-1,117	6,033
Water/Sewer Fund	Water Grant	K.S.A. 12-825d	94,160
Water/Sewer Fund	Water/Sewer Reserve	K.S.A. 12-825d	8,967

NOTE 9 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

CITY OF OVERBROOK, KANSAS
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – Subsequent Events Review

Subsequent events for management's review have been evaluated through May 20, 2011. The date in the prior sentence is the date the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the City of Overbrook, Kansas as of and for the year ended December 31, 2010 and have issued our report thereon dated May 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Overbrook's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

City Council
City of Overbrook, Kansas

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Overbrook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Long CPA, PA
A Professional Association
Certified Public Accountant

May 20, 2011